

Message Text

UNCLASSIFIED

PAGE 01 TOKYO 14795 01 OF 03 160932Z
ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-10 NSAE-00 ICA-20 XMB-04 OPIC-06 SP-02
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07 CEA-01
AGR-01 DOE-15 SOE-02 /133 W
-----105275 160949Z /11

P 160916Z AUG 78
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 0430
TREASURY/DEP WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

UNCLAS SECTION 01 OF 03 TOKYO 14795

USEEC

USOECN ALSO FOR EMBASSY

E.O. 11652: N/S
TAGS: EFIN, JA
SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS - AUG
10-16

1. SUMMARY: YEN HITS (ANOTHER) POST-WAR HIGH. CUSTOMS
TRADE DATA POINT TOWARD REDUCED JULY CURRENT ACCOUNT
SURPLUS AS IMPORTS REBOUND WHILE EXPORTS EASE. ECONOMIC
PLANNING AGENCY (EPA) RELEASES ANNUAL WHITE PAPER SKETCH-
ING AN ECONOMY-MAKING PROGRESS IN ECONOMIC RECOVERY BUT
STILL REQUIRING STRUCTURAL ADJUSTMENTS IN ORDER TO ADJUST
A DIFFICULT PAYMENTS PROBLEM AND TO REESTABLISH A STABLE
EXPANSION PATH. MINISTERIAL JOCKEYING OVER EXPECTED
SUPPLEMENTAL BUDGET PICKS UP AS EPA RELEASES LATEST
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 TOKYO 14795 01 OF 03 160932Z

MONTHLY ASSESSMENT EXPRESSING CONCERN ABOUT DEFLATIONARY
EFFECTS OF HIGH YEN. MITI AND EPA MINISTERS HUDDLE TO
DISCUSS EXPANSION OF EMERGENCY IMPORT PROGRAM AND JAPAN
EXIM FOREIGN CURRENCY LENDING PROGRAM. EPA INVESTMENT
SURVEY SHOWS UPWARD REVISIONS FOR SECOND AND THIRD
QUARTERS CY 1978 BUT STRETCH-OUT OF INVENTORY ADJUSTMENT
PROCESS. NEW MACHINERY ORDERS UP IN JUNE, OFF IN SECOND

QUARTER. WHOLESALE PRICES DROP 1 PCT IN JULY. END
SUMMARY.

2. THE YEN TOUCHED A NEW HIGH OF 181.80 ON TOKYO FOREIGN EXCHANGE MARKET THIS WEEK, IN HIGH BUT NOT EXTRAORDINARY VOLUMES. MARKET SOURCES DETECTED ONLY LIMITED BOJ INTERVENTION. MARKET COMMENTARY SAW YEN MOVEMENTS AS PRIMARILY RESPONDING TO DEVELOPMENTS IN OTHER MARKETS, AND AS FOLLOWING UPWARD PRESSURES ON THE DM, SWISS FRANC AND IN GOLD. MOST MARKET COMMENTATORS, AS WELL AS MINISTER USHIBA IN AN INTERVIEW GIVEN WIDE PRESS COVERAGE HERE, SEE LITTLE THAT JAPAN CAN DO TO REDRESS THE SITUATION IN THE ABSENCE OF DETERMINED ACTION BY THE U.S.

3. CUSTOMS TRADE DATA FOR JULY SHOW IMPORTS REBOUNDED 7.1 PCT AND EXPORTS DECLINING 2.4 PCT (FROM PREVIOUS MONTH, S.A.), POINTING TOWARD A NARROWED CURRENT ACCOUNT SURPLUS IN THE JULY BALANCE OF PAYMENTS FIGURES TO BE RELEASED LATE THIS AFTERNOON (AUG 16). PRESS REPORTS HIGHLIGHTED THE SHARP -- 8 PCT -- YEAR-OVER-YEAR DECLINE IN JULY EXPORT VOLUME (TOKYO 14617).

4. THE ANNUAL ECONOMIC PLANNING AGENCY (EPA) WHITE PAPER ON THE NATIONAL ECONOMY IN JFY 78, RELEASED AUG 11, SKETCHED A FAIRLY ORTHODOX ACCOUNT OF JAPAN'S POSITION AND PROSPECTS AND RECOMMENDS THAT THE ECONOMY BE SHIFTED
UNCLASSIFIED

UNCLASSIFIED

PAGE 03 TOKYO 14795 01 OF 03 160932Z

AWAY FROM AN EXPORT ORIENTATION TOWARD MORE CONCENTRATION ON HOUSING, SERVICE INDUSTRIES AND OTHER SOCIAL SERVICES. THE PAPER SKETCHES A PROCESS OF RETRENCHMENT, ADJUSTMENT AND PROGRESS DURING JFY 77 IN WHICH THE ECONOMY EMERGED IN BETTER BALANCE AND POSITIONED TO CONTINUE RECOVERING FROM THE SERIES OF ECONOMIC SHOCKS THAT HAD LEFT THE STRUCTURE OF PRODUCTION OUT OF PHASE WITH CONTEMPORARY REQUIREMENTS. THE EPA REPORT ARGUES THAT BY THE END OF JFY 77, AIDED BY POSITIVE FISCAL AND MONETARY POLICIES, PRICES HAD BEEN STABILIZED, INVENTORIES HAD BEEN BROUGHT INTO BETTER BALANCE AND PROFIT POSITIONS WERE BEGINNING TO IMPROVE BUT UNEMPLOYMENT HAD INCREASED AND THE PAYMENTS SITUATION HAD BEEN AGGRAVATED BY DEVELOPMENTS THAT OFFSET THE APPRECIATION OF THE YEN. PRIVATE DEMAND HAD DEVELOPED MORE RESILIENCE, ALTHOUGH IT STILL SHOWED LITTLE VIGOR, AND PUBLIC SPENDING HAD PROVIDED A STRONG UNDERPINNING TO TOTAL SPENDING ALTHOUGH AT THE COST OF A DETERIORATION IN THE PUBLIC ACCOUNTS.

5. IN DISCUSSING THE EXPANSION OF THE CURRENT ACCOUNT SURPLUS, THE WHITE PAPER LAYS PARTICULAR STRESS ON INELASTIC DEMAND FOR EXPORTS THAT ALLOWED STRONG PRICE

INCREASES TO BE PASSED THRU AND WEAK DEMAND, COUPLED WITH SOFT PRICES, ON THE IMPORT SIDE. THE COMBINATION, IT IS ARGUED, LED TO STRONG J-CURVE REACTIONS TO YEN APPRECIATION, WHICH IN TURN PROVOKED FURTHER YEN APPRECIATION.

6. THE PAPER GOES ON TO ARGUE THAT UNTIL RECENTLY THE JAPANESE ECONOMY HAS DEVELOPED IN A DUAL FASHION WITH A HIGHLY PRODUCTIVE, SOPHISTICATED EXPORT SECTOR, RELIANT ON IMPORTED RAW MATERIALS, EVOLVING SIDE BY SIDE WITH A

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 TOKYO 14795 02 OF 03 160940Z
ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-10 NSAE-00 ICA-20 XMB-04 OPIC-06 SP-02
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07 CEA-01
AGR-01 DOE-15 SOE-02 /133 W
-----105296 160950Z /11

P 160916Z AUG 78
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 0431
TREASURY/DEP WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

UNCLAS SECTION 02 OF 03 TOKYO 14795

RELATIVELY LOW-PRODUCTIVITY DOMESTIC SECTOR LARGELY INSULATED FROM TRADE. ALTHOUGH EPA SEES SIGNS OF A GRADUAL EROSION OF THIS DUALISM, FASTER PROGRESS WILL BE REQUIRED IF THE PAYMENTS DISEQUILIBRIUM IS TO BE CORRECTED AND JAPAN IS TO ADJUST TO THE NEW ECONOMIC ENVIRONMENT. ACCORDING TO THE WHITE PAPER, IT WILL BE NECESSARY TO WORK HARDER FOR A REDISTRIBUTION OF ECONOMIC RESOURCES FROM CONCENTRATION ON PRODUCTION OF CAPITAL GOODS AND DURABLE CONSUMER GOODS TO HOUSING, SERVICE INDUSTRIES AND OTHER SOCIAL-SERVICING ACTIVITIES.

7. EDITORIAL REACTION TO THE WHITE PAPER HAS BEEN GENERALLY RATHER FROSTY, WITH MOST PAPERS CHARACTERIZING THE REPORT AS BEING EXCESSIVELY OPTIMISTIC ABOUT THE PROGRESS THAT HAS BEEN MADE TOWARD ECONOMIC RECOVERY,

PARTICULARLY IN LIGHT OF THE RECENT STRONG YEN APPRECIATION WHICH THE NEWSPAPERS GENERALLY SEE AS LAYING A PALL OVER THE NEAR-TERM HORIZON.

UNCLASSIFIED

UNCLASSIFIED

PAGE 02 TOKYO 14795 02 OF 03 160940Z

8. BUREAUCRATIC MANEUVERING TOWARD THE ANTICIPATED GOVT DECISION TO INTRODUCE A SUPPLEMENTAL BUDGET IN SEPTEMBER GATHERED MOMENTUM THIS WEEK. PRIMIN FUKUDA TOLD CABINET MINISTERS TO PROCEED ON THE ASSUMPTION A SUPPLEMENTAL WOULD BE NEEDED AND TO HAVE THEIR VIEWS ON THE SIZE AND COMPOSITION COORDINATED BY THE TIME OF THE SCHEDULED SEPT 2 MEETING OF THE ECONOMIC CABINET MINISTERS. THE PRIMIN ALSO ASKED LDP POLICY AFFAIRS RESEARCH COUNCIL CHAIRMAN ESAKI TO STUDY THE MAGNITUDE OF STIMULUS NEEDED. IN SEPARATE REMARKS, HOWEVER, THE PRIMIN THREW COLD WATER ON SPECULATION THAT INCOME TAX CUTS MIGHT BE CONSIDERED, REPEATING HIS WELL-KNOWN VIEW THAT SUCH CUTS WOULD BE INAPPROPRIATE GIVEN THE LARGE BUDGET DEFICIT. ACCORDING TO NIHON KEIZAI OF AUG 15 THE CURRENT (RATHER PREDICTABLE) LINEUP OF MINISTERIAL VIEWS OF GROWTH PROSPECTS AND NEEDED STIMULUS TO FINAL DEMAND IS AS FOLLOWS:

- EXPECTED JFY REAL SHORTFALL FROM REQUIRD STIM-
- GROWTH W/O AD- 7 PCT GROWTH ULUS TO FINAL
- DITIONAL STIMULUS TARGET DEMAND

MOF	6.5 PCT	1 TRIL YEN	1 TRIL YEN
EPA	6.0 PCT	2 TRIL YEN	2 TRIL YEN
MITI	5.4 PCT	3.5 TRIL YEN	3.5 TRIL YEN

MITI MINISTER KOMOTO HAS BEEN PARTICULARLY ASSERTIVE IN ARGUING THE CASE, IN PUBLIC, FOR A STRONG STIMULUS. KOMOTO IS QUOTED AS TELLING THE PRESS THAT WITH EXPORTS ALREADY WEAKENING, YEN-INDUCED DEFLATIONARY EFFECTS COULD PLUNGE THE BUSINESS COMMUNITY INTO "ECONOMIC CHAOS."

9. EPA, IN ITS MONTHLY ECONOMIC REPORT RELEASED AUG 11, UNCLASSIFIED

UNCLASSIFIED

PAGE 03 TOKYO 14795 02 OF 03 160940Z

EXPRESSED CONCERN ABOUT THE DEFLATIONARY EFFECTS OF STRONG YEN APPRECIATION. THE EPA REPORT STRESSES THAT THE EXPANSION OF EXPORTS HAS CLEARLY RUN OUT OF STEAM WITH JUNE EXPORT VOLUME 2.5 PCT BELOW YEAR-EARLIER LEVELS AND IT GOES ON TO ATTRIBUTE RECENT SLOWDOWN IN PRODUCTION AND SHIPMENTS TO THE WEAKENING OF EXPORTS. BOJ'S MONTHLY

REPORT, RELEASED A FEW DAYS EARLIER, HAD STRUCK A SIMILAR
THEME.

10. TWO KEY CABINET MINISTERS, MIYAZAWA (ECONOMIC PLANNING
AGENCY) AND KOMOTO (MINISTRY OF INTERNATIONAL TRADE AND
INDUSTRY) MET AUG 12 TO DISCUSS POSSIBILITY OF EXPANDING
EMERGENCY IMPORTS AND BROADENING JAPAN EXIMBANK FOREIGN
CURRENCY LENDING FACILITY. KOMOTO REPORTEDLY PROPOSED
EXPANDING TARGET FOR EMERGENCY IMPORTS FOR CURRENT FISCAL
YEAR 1978 TO \$12.5 BIL FROM THE \$4 BIL SET AT JULY 12
MEETING. MIYAZAWA AND KOMOTO REPORTEDLY AGREED TO WORK
TOGETHER ON CONCRETE MEASURES TO REALIZE SUCH AN EXPANSION.
MIYAZAWA AND KOMOTO ALSO REPORTEDLY AGREED ON THE DESIRA-
BILITY OF EXTENDING EXIMBANK FOREIGN CURRENCY LENDING
PROGRAM TO INCLUDE INVESTMENTS IN OVERSEAS NATURAL RESOURCE
DEVELOPMENT PROJECTS THAT WOULD EVENTUALLY LEAD TO
JAPANESE IMPORTS. SEPARATELY IT IS ALSO REPORTED MOF, IN
RESPONSE TO THE KOMOTO/MIYAZAWA AGREEMENT, HAS STARTED
WORKING ON AN ALTERNATIVE PLAN TO FINANCE SUCH DEVELOPMENT
PROJECTS. UNDER THE MOF ALTERNATIVE, IN CASE OF DEVELOP-
MENT PROJECTS, EXIM WILL BORROW YEN FUNDS FROM TRUST FUND
BUREAU (MAJOR SOURCE OF FUNDS FOR GOVT FISCAL LOAN AND
INVESTMENT PROGRAMS). EXIMBANK WOULD THEN BE REQUIRED TO
BUY DOLLARS ON FOREIGN EXCHANGE MARKET AND ALSO BEAR FOR-
EIGN EXCHANGE RISKS. THERE IS A REPORTED POSSIBILITY THAT

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 TOKYO 14795 03 OF 03 160946Z
ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-10 NSAE-00 ICA-20 XMB-04 OPIC-06 SP-02
LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-07 CEA-01
AGR-01 DOE-15 SOE-02 /133 W
-----105334 160949Z /11

P 160916Z AUG 78
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 0432
TREASURY/DEP WASHDC PRIORITY
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME

UNCLAS SECTION 03 OF 03 TOKYO 14795

EXIM WOULD BE ALLOWED TO PROVIDE MIXED YEN/DOLLAR CREDITS.

11. ECONOMIC PLANNING AGENCY'S LATEST BUSINESS SURVEY OF PRIVATE PLANT AND EQUIPMENT INVESTMENT SHOWS A MIXED PICTURE. THIS SURVEY WAS CONDUCTED IN MAY AMONG 3,722 COMPANIES CAPITALIZED AT 100 MIL YEN OR MORE. IN THE MAY SURVEY, BUSINESSMEN REVISED UPWARD THEIR INVESTMENT PLANS FROM THE FEB SURVEY, BUT INVENTORY ADJUSTMENT IS PREDICTED TO CONTINUE THROUGHOUT THE JUL-SEPT QUARTER, DESPITE EPA'S EARLIER EXPECTATION THAT INVENTORY ADJUSTMENT WOULD HAVE BEEN COMPLETED BY THE APR-JUNE QUARTER. PRIVATE PLANT AND EQUIPMENT INVESTMENT IN ALL INDUSTRIES IS ESTIMATED TO HAVE SURGED BY NEARLY 15 PCT IN THE APR-JUNE QUARTER OVER THE PRIOR QUARTER'S LEVEL (S.A.) BUT IN THE THIRD QUARTER THE RATE OF INCREASE IS PROJECTED TO SLOW TO 2.3 PCT AND TO DECLINE IN THE FOURTH QUARTER BY 3.8 PCT. FOR FULL YEAR 78, PRIVATE CAPITAL INVESTMENT IS PROJECTED UP BY 5.8 PCT, TO 12.2 TRIL YEN. COMPARED WITH UNCLASSIFIED

UNCLASSIFIED

PAGE 02 TOKYO 14795 03 OF 03 160946Z

THE FEB SURVEY, PRIVATE CAPITAL INVESTMENT FOR THE SECOND AND THIRD QUARTERS IS NOW REVISED UPWARD BY 7-8 PCT. HOWEVER, BUSINESSMEN ALSO PREDICT THEY WILL CONTINUE TO REDUCE THEIR INVENTORIES THROUGHOUT THE JULY-SEPT QUARTER AND EPA OFFICIALS ARE REPORTEDLY CONCERNED ABOUT THIS APPARENT DELAY OF INVENTORY ADJUSTMENT.

12. NEW MACHINERY ORDERS, S.A., REBOUNDED IN JUNE BUT FOR APRIL-JUNE QUARTER AS A WHOLE FELL BY AROUND 6 PCT FROM THE PRIOR QUARTER'S LEVEL. IN JUNE NEW MACHINERY ORDERS PLACED BY BOTH PRIVATE AND PUBLIC SECTORS RECOVERED RAPIDLY, RISING BY 7 PCT AND 49 PCT, RESPECTIVELY, OVER THE PRIOR MONTH'S LEVEL (S.A.). FOR APR-JUNE QUARTER AS A WHOLE, HOWEVER, MACHINERY ORDERS PLACED BY PRIVATE INDUSTRIES (EXCLUDING SHIPS) DECLINED 6 PCT AFTER ADVANCES IN THE PRECEDING TWO QUARTERS. ORDERS PLACED BY GOVT AND PUBLIC AGENCIES WERE ALSO DOWN, BY 5.5 PCT, AFTER THE SPURT OF 19 PCT IN THE FIRST QUARTER.

NEW MACHINERY ORDERS, S.A. (IN BIL YEN; PCT CHANGE FROM PRIOR PERIOD IN PAREN):

- PRIVATE ORDERS EXCL. GOVT AND PUBLIC
- SHIPS (JEI 337) ORDERS (JEI 335)

RECENT MONTHS:

APRIL	268.7 (-23.4)	114.6 (17.6)
MAY	264.2 (-1.7)	84.5 (-26.2)
JUNE	282.4 (6.9)	125.8 (48.8)

RECENT QUARTERS (MONTHLY AVERAGE):

1977:OCT-DEC	237.5 (1.6)	96.2 (-15.4)
1978:JAN-MAR	289.2 (21.8)	114.6 (19.1)

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 TOKYO 14795 03 OF 03 160946Z

1978:APR-JUN	271.8 (-6.0)	108.3 (-5.5)
--------------	--------------	--------------

13. WHOLESALE PRICE INDEX, N.S.A., FELL 1.0 PCT IN JULY, FOLLOWING THE 0.4 PCT DECLINE IN JUNE. WHOLESALE PRICE INDEX OF MANUFACTURED GOODS ALSO DECLINED, THOUGH LESS RAPIDLY, BY 0.6 PCT IN JULY (TOKYO 14650). MANSFIELD

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC TRENDS, ECONOMIC REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 16 aug 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978TOKYO14795
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780334-1366
Format: TEL
From: TOKYO USEEC
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780856/aaaabuxc.tel
Line Count: 348
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 57e18662-c288-dd11-92da-001cc4696bcc
Office: ACTION EA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1716542
Secure: OPEN
Status: NATIVE
Subject: FINANCIAL AND ECONOMIC DEVELOPMENTS - AUG 10-16
TAGS: EFIN, JA
To: STATE TRSY
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/57e18662-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014